Red Meat Supplies Comparable to a Year Ago

As we end November 2005 the beef and pork supplies are about where they were this time last year. As outlined below, production to date and inventories are similar to 2004, but there are some warning signs that point to potential problems. Perhaps the biggest risk, consumer demand, is also the most difficult to monitor.

Pork supplies…
Year to date, through November 26, hog slaughter was down 0.2% and pork supplies were up 0.4% due to heavier carcass weights earlier in the year. Carcass weights since mid-summer have been very close to the same period last year. Pork in cold storage at the end of October was up less than 5% from the same date in 2004. The inventory of hogs and pigs on September 1 was estimated to be 0.03% higher than September last year.

Pork exports being 26% higher this year compared to last through September and pork and hog imports are lower. The farm to retail price spread is 1.1 cent per retail pound higher than the year before.

Supplies have been steady and exports higher, yet prices have averaged $2.42/cwt carcass weight lower thus far in 2005 compared to the same weeks in 2004. Thus, it appears that domestic demand is weakening from where it was in 2004. Demand is what supported 2004 prices at the highest levels since 1991 in the face of record pork production. Demand will be key to price levels in 2006 as it is expected to be another record year for pork production.

Higher energy prices are expected to reduce consumer spending power and reduce demand for pork and beef. The full extent won’t be known, but it is hard to imagine how higher home heating cost is supportive of pork and beef prices. A second demand wild card is avian influenza. Some have speculated that the fear of avian influenza will cause consumers to shift away from poultry toward red meat. However, there is also a concern that if US poultry export customers turn away from poultry those supplies will end up on the US market a much reduced prices providing low cost competition for red meat. In 2003 (pre-BSE) the US exported more pounds of broilers than pork and beef combined. We only need to remember the 2002 Russian broiler export ban to see the potential impact on cattle and hog prices.

Beef supplies…
January through November 26 cattle slaughter was 1.6% lower, but beef supplies were 0.2% higher than the same time period in 2004. Beef in cold storage is down 3% from one year earlier. The number of cattle on feed November 1 was up 1.2% from 2004.
One place where cattle supplies are different from the fall of 2004 are supplies of market ready cattle. The inventory of cattle that had been on feed 120 days or more was up 9% or 225,000 head November 1 compared to the year before and suggests that there is a risk of a marketing backlog. Steer carcass weights are at record high levels and holding steady. However, it is not uncommon to have weights decline at this time of the year due to adverse weather in the major feeding regions. Weights declined in November 2002 (the previous record) and 2004 (near record) thus we may bring weights down if the weather changes, but three weeks below 600,000 head slaughtered will make it difficult to get current on marketings.

Beef demand has been strong through the first two quarters of 2005, but is showing some signs of weakening in the third quarter. Demand will also be important for cattle prices in 2006. We are ending 2005 with slightly more cattle on feed, record carcass weight, and at least some additional slaughter and feeder cattle from Canada that we didn’t have at this time last year. In spite of these negative pressures on the market the basis adjusted February and April futures are suggesting fed cattle prices could average $92-93 in 2006 first quarter compared to $89 first quarter average in 2005. Given the larger supplies the market appears to be betting on stronger demand.

One source of optimism for beef demand is the soon expected announcement of exports to Japan and South Korea. Reopening these markets is important to long-run cattle prices. When export markets closed it was estimated that it cost approximately $109 per head of cattle slaughtered or about $9/cwt on a 1250 pound animal. Some exports have returned. The US exported 21% of the 2003 value in 2004 and exports are 60% higher on a volume basis through September 2005 over 2004. However, it is doubtful that we will regain half of the 2003 lost value in the first quarter of 2006 as the futures markets are suggesting.

**Resuming beef exports…**

When trade with Asian resumes South Korea may be the larger market, at least initially, due in part to the small eligible supply of beef to export to Japan. As has been widely discussed Japan will accept only beef from cattle 20 months of age or less at slaughter. The methods for qualifying this age of beef were discussed in the October 31, Iowa Farm Outlook. South Korea, however, will accept beef from cattle under 30 months of age and the age of the animal is determined at the plant by having trained personnel examining the teeth of the cattle.

Once the announcement to resume trade is made it is expected to take some time to rebuild either of these or other markets. Surveys of Japanese consumers indicated that they are not as confident in the safety of US beef as US consumers have been. Also, Australia has increased its exports of grain fed beef to Japan trying to fill a void left by the loss of US product. Thus, the reduced supply (20 months and younger) and increased competition will take time for beef exports to be significant.

The price impact could be interesting. There may well be a large premium on cattle with QSA certified birthdates proving 20 months or less. There may also be small enough demand, at least initially, that the total demand for beef is impacted very little from exports. For more information about qualifying cattle for export to Japan and its market impact attend the Iowa Beef Center webcast January 9 at 7:00-9:00 pm. The webcast will be broadcast to select County Extension Offices. Contact your county office if you would like to attend. If they are not hosting the program, they can tell you the closest location.

*John Lawrence*
The corn and soybean basis have both strengthened moderately in the last few weeks as harvest pressures subsided and farmer marketings have been slow. However, much of the basis strength came from declining futures prices. Cash prices are only a few cents higher than during harvest. Due to the large crop, lagging export sales, and uneasiness about bird flu, near-by corn futures this week reached levels last seen in mid-September 2000. January soybean futures have reached the lowest levels since late February 2005.

Although the New Orleans gulf export corn basis is weaker than at the peak of the harvest season, corn LDPs have dropped 17 cents per bushel from their peak last month. In most areas of Iowa, cash corn prices have increased by considerably less than the decline in LDPs. Combined cash prices and LDPs in many cases now are slightly less than the loan rate. For example, corn prices for immediate delivery at Boone county Iowa elevators on November 30 ranged from $1.46 to $1.48 per bushel. The county loan rate is $1.87 per bushel. For farmers facing the decision whether to use the marketing loan or take the LDP, the weaker LDP offers incentive to sell under the CCC loan program. Central Iowa soybean prices for immediate delivery are in the low $5.20 per bushel range, modestly above the Boone county loan rate of $4.96 per bushel.

Corn prices generally are higher at ethanol plants than at elevators a few miles away, with the difference depending on (1) the number of ethanol plants nearby, (2) amount of corn production and livestock and poultry feeding in the area, and (3) distance from train-load shipping elevators. Local elevator contracting prices for July delivery for corn in central Iowa generally are $0.25 to $.29 per bushel above current cash bids. In some cases, ethanol plants are offering a larger incentive for holding corn until July delivery than local elevators. July bids for delivery of soybeans at some locations are running 10 to 12 cents above current cash prices.

In several Iowa counties, ethanol plants have caused shifts from major surplus corn supplies to deficit supplies. A deficit corn supply means more corn is being used in the county than is produced there. To fill the deficit, corn has to be shipped in from other areas, and the price has to be high enough to cover costs of trucking it in.

Potential cash price trends into January-May
Cash corn prices and the basis may strengthen a little further in the next few weeks with limited farmer marketings and a push to move as much corn as possible out of the Upper Mississippi river before it freezes. After the first of the year, there is a potential for temporary weakness in the basis and possibly in cash prices. Farmer marketings likely will increase in January to cover cash flow needs and to shift income into next year. A large percentage of the corn crop appears to have had the LDP taken. Where that is the case, the corn is not eligible for the marketing loan to generate additional cash flow.

Cash corn prices and the basis appear likely to strengthen modestly from early January into mid-February. However, there are two caution signs for late winter: (1) the large amount of corn stored outside in the western Corn Belt that elevators will be anxious to move before warm weather, and (2) larger than normal cash-flow needs of farmers due to the combined impact of higher fuel and fertilizer prices, and heavy use of the LDP program this fall. These factors may weaken prices temporarily in late February and early March as farmer marketings increase. Cash prices appear likely to strengthen at least modestly in April and the first half of May as the grain trade focuses on weather concerns and a possible shift of corn acres to soybeans because of the high cost of nitrogen fertilizer.
The normal seasonal rise in Iowa monthly average corn prices from October to the typical seasonal peak in May is about 25 cents per bushel. USDA on November 30 reported the Iowa October average price at $1.78 per bushel. This price may look surprisingly high to many farmers in the western 2/3 of the state who saw prices drop into the $1.40 to $1.50 range and even a few cents lower in some parts of west central Iowa. However, USDA prices are an average of cash sales and prices contracted earlier for harvest delivery. With this year’s large supplies and heavy use of the LDP program, nervousness about weather or reduced corn acreage may be needed to bring a 25 cent increase in cash corn prices into May. Prices at that level would be about 14 cents above the state average loan rate. Without significantly reduced corn plantings or concern about a moderately reduced U.S. average yield, the market probably would have difficulty maintaining prices at that level into summer.

Export Sales Update
The tables below show the percentage change vs a year ago in total U.S. corn and soybean export sales through Mid-November of this year. Corn export sales have increased moderately in recent weeks, narrowing the gap vs a year ago. Although the total to date was down 7% from a year earlier, USDA projects the marketing year total exports will be up 10%. The projected marketing year increase is based on an anticipated decline in production and available foreign supplies of feed grain (coarse grain in USDA world reports). Over the last 24 years, foreign coarse grain production has been above October USDA projections 71% of the time. Thus, history cautions that foreign production numbers may increase in the months ahead. Foreign soybean production over the same period has increased from October to the season final reports in about 63% of the years. Last year, U.S. corn export sales slowed in late November and December, so in the next few weeks the year-over-year reduction in corn export sales may gradually diminish.

The extremely sharp decline in soybean export sales vs a year ago is reason for concern. It may reflect (1) a build-up of bean inventories at foreign processing plants during last summer’s U.S. drought, (2) concern about bird flu making foreign processors unwilling to book supplies ahead aggressively, and (3) possible under-estimation of last spring’s South American crop. Increased September 1 carryover stocks in South America would have the potential to account for about 1/3 of the drop in U.S. bean export sales. South American bean supplies should be quite limited from now into late February, and may bring some recovery in U.S. soybean export sales. Recent reports indicate planting progress and soil moisture are about normal for much of the South American Soybean Belt.

Cumulative Corn Export Sales
11/17/05 vs. yr. ago

<table>
<thead>
<tr>
<th>% Chg.</th>
<th>Mil. Bu.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>-10%</td>
</tr>
<tr>
<td>Japan</td>
<td>-9%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>+42%</td>
</tr>
<tr>
<td>Other Asia</td>
<td>-18%</td>
</tr>
<tr>
<td>W. Hemisphere</td>
<td>-4%</td>
</tr>
<tr>
<td>Unknown</td>
<td>-32%</td>
</tr>
<tr>
<td>Total</td>
<td>-7%</td>
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# Soybean Export Sales

11/17/05 vs. yr. ago

<table>
<thead>
<tr>
<th>Region</th>
<th>Change</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>-36%</td>
<td>156 mil. Bu.</td>
</tr>
<tr>
<td>Africa</td>
<td>-12%</td>
<td>11</td>
</tr>
<tr>
<td>EU</td>
<td>-69%</td>
<td>23</td>
</tr>
<tr>
<td>Japan</td>
<td>-03%</td>
<td>47</td>
</tr>
<tr>
<td>Taiwan</td>
<td>+34%</td>
<td>29</td>
</tr>
<tr>
<td>Other Asia</td>
<td>-10%</td>
<td>48</td>
</tr>
<tr>
<td>W. Hemisphere</td>
<td>+22%</td>
<td>63</td>
</tr>
<tr>
<td>Unknown</td>
<td>-57%</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>-29%</td>
<td>409</td>
</tr>
</tbody>
</table>

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**SBM** -16%; **SBO** -22%

*Robert Wisner*
More Milk Again, Up 4.1% in October 2005

October 2005 milk production was reported up 4.1%, the sixth month production rose over 4%. 23 state dairy cow numbers were 58,000 more than one year ago and 4000 higher than September 05. Milk per cow was 53 pounds higher than one year ago. The milk-feed ratio rose for the fourth straight month in October to 3.44.

Iowa milk production for October 05 was off 1.9% or 6 million pounds. Cow numbers were 4,000 less than one year ago but the same as September 05. Milk per cow was the same as one year ago, 1640 pounds. Total cheese production in Iowa was down 0.5% or 65 million pounds, but was 6.5% lower than August.

Iowa was one of only 5 reporting states that had lower milk production in October. These were Missouri – 7.4%, Kentucky –6.2%, Arizona –0.7% and Florida –0.6%.

The biggest production increase occurred in a familiar state, Idaho up 13.2%, with 36,000 more cows and 80 more pounds of milk from its dairy herd. 62% of the US milk cow number increase occurred in Idaho. Most likely much of the increased milk production went into cheese production, but ID no longer reports as a state dairy product production. Dairy accounts for over 25% of total agricultural receipts.

The next largest production increase was in Texas, +9.4%, with cow numbers constant in Texas due to a big jump in milk per cow, 135 pounds. Indiana made an 8.3% milk production gain with 3000 more cows and 100 pounds more milk per cow. New Mexico gained 8.1% in milk production. NM added 13,000 cows and 70 pounds of milk per cow. CO added 3000 cows and 85 pounds of milk for a total gain 7.6%. IL milk production was flat even though they lost 2000 cows; the remaining cows added 30 pounds of milk per cow. MN had a 0.9% gain from 45 pounds additional milk per cow while losing 10,000 cows. WI only had 1000 fewer cows but added 4% more milk because of a 60 pound gain in milk per cow. A couple of states which have seen Dutch dairy farmer immigration over the past few years are OH and MI. OH added 4000 cows but only increased 30 pounds of milk per cow for a 3.7% milk gain. MI added 8000 cows and 60 pounds of milk per cow resulting in a 6.1% gain in milk.

Dairy cow number increased along the West Coast. CA added 30,000 cows but only increased milk per cow by 10 pounds. WA added 10,000 cows and had 30 more pounds milk per cow. OR added only 1000 cows and 15 pounds of milk per cow.

Demand
Fluid milk sales in the US made an increase for the first nine months of 2005. For the first 7 months, a decline had actually occurred but August and September were up 233 million pounds or 2.6%. Only whole white milk dropped in sales, -1.1%.

The monthly ‘Cold Storage’ report showed total cheese stocks down 3% from one year ago and 4% lower than September 05. Butter stocks are 6% below year ago and 19% below September 05. The total pounds draw down of both butter and cheese during October was below the 5-year average. The decline in CME butter stocks is slowing when compared on a weekly basis. It isn't too surprising since the Thanksgiving to New Years period is the heaviest use time for butter and much of the butter needs to be in the retail marketing channels already.

Total cheese production during September 05 was 3.9% higher than one year ago. The only cheese type that had lower production than one year ago was Cream and Neufchatel. All other types, including cottage cheese, had increases of at least 1.8%. Hispanic type cheeses had 14.5% higher production from one year ago and 2.3% more than August 05.
Analysis
USDA announced the Nov 05 Class III price this morning. It was announced at $13.35 per cwt., $1 less than last month and $1.54 less than one year ago. Both block and barrel cheese prices gained a penny yesterday. Barrel cheese prices have picked up about 7.75 cents from its most recent bottom of $1.31 on October 31. Block cheese made a 4.5 cents gain for the same period. The most recent CME cheese spot trading sessions have had some unfilled bids left on the table. These recent indicators seem to point to at least short term price strength, the next 6-8 weeks. As mentioned earlier though, this period is a strong retail sales time for butter and also cheese.

NMPF confirmed on a late Nov ‘Dairyline’ that slaughter of 66,000 dairy cows will be finished by the end of December. These cows are from 442 herds nationwide, but none from Iowa. The number of cows slated for removal is slightly more than the dairy herd increase year –to-year reported for Oct 05. Total milk production expected to be removed is 0.7% of annual US production.

The MILC program has not yet been extended, even though a number of politicians have talked about the need for its extension. Speaker Hastert has made that comment, but the senate-house conference seems to have left the extension out so far. Since April 2004 only 2 months would have triggered payments. June 05 at 3.15 cents and now November 05. If the Class III futures prices are an accurate predictor, most of the 2006 months are likely to be eligible for MILC payments.

There appear to be several reasons to be optimistic that milk prices will be above average, $12.50, for the next few months. Although ID has shown strong milk production growth, the big dog on the milk production scene, CA, has only had modest gains. Major productivity gains in CA would likely signal weaker milk prices. Reports from familiar with dairy growth indicate CA is unlikely to show the same level of growth that the 1990’s and early 2000’s brought. The business environment is changing there. Strong growth areas for dairy appear to be west Texas, Idaho and the I-29 corridor.

Robert Tigner